



# Religiosity in Paying Zakat and Tax Compliance in Medan City

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## Abstract

Zakat is a form of almsgiving which is collected by the Muslim Ummah. It is considered in Islam to be a religious obligation, and in terms of importance in Quranic standing, it is next in line after prayer. Zakat is thus a way for the people to channel their wealth to those who are less fortunate. Zakat is due for a Muslim when one's Zakatable wealth increases to a minimum threshold or *nisab* and also once a lunar year or *hawl* passes while one's Zakatable wealth withstands the lowest threshold. A Muslim only pays Zakat when they have been in possession of the *nisab* (minimum amount of wealth) for a period of at least a full lunar year. The payment of Zakat is strongly influenced by the value of individual religiosity as a basic form of attitude and knowledge to show obedience. The emergence of a policy to pay Zakat can help to reduce taxes for taxpayers in Indonesia, which is one of the efforts made to grow the productivity of



Zakat. Zakat and taxes are very dependent on their management, but from a legal perspective, their implementation must be kept separate. This research examines how a person's religiosity affects compliance in paying Zakat, which can increase tax revenues in Medan. Qualitative research methods with a desk research approach were used. The study results show that the value of religiosity dramatically influences the people of Medan to pay Zakat. Religiosity is variously interpreted as worship that encourages paying Zakat, thus giving rise to different characteristics in attitude, willingness, and compliance to pay taxes. In implementing the policy of paying Zakat to cut taxes, many people still need to know more about it. The role of Zakat institutions still needs to be improved in providing socialization and creating greater awareness thereof. This raises an attitude of trust in paying Zakat to institutions close to their environment compared to institutions recognized by the government. This condition arises because of the high value of religiosity, which is more concerned with distributing Zakat than administrative issues so that it can be recognized as a tax reduction. Meanwhile, the moral community tends to emphasize the community's religiosity value as a basis for compliance in paying Zakat.

**Keywords:** Religiosity, Islam, Zakat, almsgiving, tax, Indonesia.

## Introduction

Zakat is a type of Islamic almsgiving that might enhance taxpayer compliance behaviour because those who pay Zakat generally tend to have strong Islamic principles that motivate them to follow the Tax Law (Muhammad & Nor, 2021). Zakat is a form of worship in Islam that compels Muslims to distribute their money to those in dire need. According to the Qur'an, surah, a group of people, the destitute, and others are mentioned in Surah At-Tawbah 9:60-66 which states:

This is ordained by God; God is all knowing and wise. [9:60] The alms are meant only for the poor and the needy and those who are in charge thereof, those whose hearts are to be reconciled, and to free those in bondage, and to help those burdened with debt, and for expenditure in the Way of Allah and for the wayfarer.

The potential benefits of Zakat for the people have a positive impact, particularly in terms of empowerment; the premise of paying for it is founded on a spirit of volunteerism. This suggests that religious principles heavily influence the desire to give individual Zakat. Religious values are associated with a religious life, have a holy nature, and govern individual behaviour (Nadia, 2023). Religious values are one of the three fundamental components of Aqidah, along with worship and morals. The Zakat principle promotes religious views (An-Nabhani, 1996). This suggests that the productivity of receiving Zakat for the benefit of Muslim distribution stems from this value.

Zakat can also boost the poor's purchasing power, increasing consumption, spending, and aggregate demand. Several researchers have developed models based on substantial investigations from several domains of literature about tax and Zakat compliance behaviour (Farah, 2019). However, research on the efficiency of Zakat in the taxation system in increasing Zakat contributions and tax collections is still in its early stages. Zakat is one of Islam's five pillars and funds various causes, including the poor and needy. Muslims with a specific degree of wealth are expected to give 2.5% of their liquid assets to charity annually (Iddy et al., 2022). This is a spiritual requirement and a crucial part of the Islamic social welfare system (Kuran, 2020). The purpose of Zakat is to help people experiencing poverty in the society while also purifying and benefiting one's wealth (Sawmar & Mohammed, 2021).

Tax policies can assist governments in for examples meeting challenges such as COVID-19 by generating public money that allows governments to finance investments in infrastructure and human resources and provide services to citizens (Worldbank.org, 2021). Given the



COVID-19 quandary, taxes are crucial to guaranteeing long-term and equitable growth. In this case, taxes are critical for maintaining and increasing the availability of resources during a crisis (Utami & Ilyas, 2021). In the meantime, numerous nations are attempting to lower taxes through Zakat to encourage taxpayer compliance (Sawmar & Mohammed, 2021).

Indonesia has a policy that encourages Zakat management to have the most significant economic impact on society. The government also encourages Zakat management by eliminating Zakat as a taxable item (Vivian, 2022). This is stated in Article 4, paragraph (3) of Income Tax Law Number 36 of 2008. When filing Annual Tax Returns, Zakat can be used as a tax deduction (Lathifa, 2020; Klikpajak.id, 2020). This is specified in Article 22 and paragraphs 1-2 of Law No. 23 of 2011 on Zakat Management. However, there are significant barriers to using Zakat as a tax deduction in Indonesia, including taxpayers' need for more awareness of these requirements (Imron et al., 2020). This policy is vital to maintain regional revenue stability because Medan City, the capital of North Sumatra Province in Indonesia, witnessed a 40% decline in the realization of taxes and fees during the pandemic (Sumutpos.jawapos.com, 2020).

According to numerous reports, Medan City has considerable Zakat potential. Because of its vast Zakat potential, the National Amil Zakat Agency of the Republic of Indonesia (Baznas, 2015) plans to make Medan a role model for Zakat management (Pemkomedan.go.id, 2022). North Sumatra Province has a total Zakat potential of IDR 7.9 trillion, which includes Zakat on agriculture, livestock, and services (Lksa.or.id, 2022). Previous research has demonstrated the role and potential of Zakat in the welfare of Medan City's MSMEs (Siregar, 2022). Previous research has also demonstrated the possibility and function of Zakat in poverty alleviation in Medan City (Simbolon, 2020). The potential for receiving Zakat, which can later be used to lower taxes, is particularly significant in Medan. However, the city's Muslims have only begun to implement this program. Because of the encouragement of religious ideals, these settings make it possible. As a result, examining how one's religious beliefs influence Zakat compliance is critical, which can improve tax income in Medan City.

## Literature Review

The literature on religion and tax compliance varies according to religion. Several studies have discovered a beneficial association between religiosity and taxpayer compliance, whereas others have discovered no such relationship. For example, Benk et al. (2016) discovered that religiosity generally has a statistically positive impact on both voluntary and forced tax compliance in Turkey. Another study conducted in Malaysia and Turkey discovered that highly religious persons have a higher proclivity for voluntary and forced tax compliance than less religious people (Mohdali et al., 2018). A New Zealand study, however, discovered that personal integrity has a more significant influence on tax compliance attitudes than religious views (Pope, 2014). The following research will seek to determine whether religiosity and views influence taxpayer compliance behaviour in meeting the requirements of tax laws and regulations (Hidayat et al., 2022).

The association between religiosity and tax compliance has policy consequences. Policymakers, for example, should think about encouraging religious values and beliefs that motivate tax compliance through education and outreach programs. Furthermore, policymakers may explore collaborating with religious organizations to encourage tax compliance among their members (Nicholson, 2019). Taking sides with one religion, on the other hand, might lead to prejudice and rough treatment. It is also worth noting that personal integrity and other characteristics may significantly impact tax compliance attitudes more than religious beliefs (Hwang & Nagac, 2021).

Policymakers should explore a comprehensive approach considering the different elements influencing taxpayer compliance behaviour, including religiosity. Finally, any policy or



programme aiming at increasing tax compliance through religiosity must be conducted to respect individual religious convictions and not discriminate against any particular group. There are various examples of employing religion to promote tax compliance. Several studies, however, demonstrate that religious leaders can play a role in encouraging tax compliance among their adherents. Research in Nigeria, for example, discovered that religious leaders could be beneficial in increasing tax compliance by highlighting the religious need to pay taxes (Hwang & Nagac, 2021). Furthermore, numerous countries have provided tax breaks for charitable contributions to religious groups, which can indirectly encourage religious individuals to file taxes (Hidayat et al., 2022).

### **Method employed**

This study used a qualitative research method with a desk research approach. Desk research is also a research method that collects data from various channels (Given, 2008). Desk research is about more than collecting data but reviewing previous research findings to gain a broad understanding of the field (Czarniawska, 2014). Primary resources include scientific research articles, books, and diaries, while secondary resources include published reports and statistics. The steps involved in secondary research include identifying sources of information, collecting data, analyzing data, and presenting findings (Ruggiano & Perry, 2019).

### **Results and Discussion**

#### **Religiosity in Compliance Paying Tax Zakat**

There are generally two types of Zakat that Muslims must pay: *Zakat Al-Mal*, also known as Zakat of Wealth, and *Zakat Al-Fitr*, usually paid during Ramadan. *Zakat Al-Mal* is a mandatory payment of 2.5% of one's wealth, while *Zakat Al-Fitr* is a Zakat that must be made for Muslims before Eid al-Fitr or during Ramadan. Besides these two types, four other types of Zakat are considered obligatory: Livestock, agricultural products, minerals, and trade goods. The conditions for obligatory Zakat are as follows: the person must be Muslim, intelligent, mature, and independent. In addition, Zakat becomes mandatory whenever an economic activity increases one's net worth (Kemenag.go.id, 2022).

Islamic religiosity is strongly related to showing intentions, attitudes, and moral obligations in paying Zakat (Othman & Fisol, 2017) in the Qur'an QS. Al-Baqarah/2:43 God's command to carry out Zakat is often in tandem with the command to carry out prayers. The letter explicitly ordered the implementation of Zakat. Zakat in Islam is thus essential to pay. The broad benefits of Zakat are one of the driving aspects of Zakat's ability to affect human empowerment.

"And establish prayer, pay Zakat and bow down with those who bow down." (QS. Al-Baqarah / 2: 43).

However, religiosity is not only a motivator for people to pay Zakat and taxes but also a barrier. One of the factors causing people's reluctance to pay Zakat is religiosity factor (Dulay & Lubis, 2015). The number of Zakat institutions in Medan encourages convenience in paying Zakat. However, everyone's different levels of religiosity lead to differences in intentions and attitudes toward paying Zakat. Several factors influence the attitude of paying Zakat and taxes and include the religiosity factor, besides one's obedience, but also the principle of paying Zakat. The assumption of giving Zakat directly to *Mustahiq* the rightful person entitled to receive is much more, which is still being done a lot. Individual knowledge factors influence the paying of Zakat. Many people still need to learn to pay Zakat to official institutions that the government recognizes. The view is that the most crucial thing is to in fact be paying Zakat, regardless of whether the institution is recognized or not. The people still tend to believe this view in the city of Medan.



The location factor influences a person's intention to pay Zakat in official institutions recognized by the government, such as the Zakat Charity Agency (BAZ) and Zakat Charity Institutions (LAZ). Locations far from home foster an attitude of reluctance to pay directly to Zakat institutions that the government recognizes. The service factor is very influential concerning the impression of the giver of Zakat. This factor is also motivated by an attitude of trust that arises from less-than-optimal service. The management of information about the management of Zakat dominates the need for more public trust. Extensive information about distribution and management transparency tends to encourage people and engenders trust in the community.

The presence of religious values in the people of Medan City is vital as one of the bases for the enormous potential of Zakat in that City. This means that the values can certainly influence attitudes and decisions to pay Zakat. The encouragement of the people of Medan City to pay Zakat is powerful and it is evident in the high levels of enthusiasm in the community to place Zakat as a vital part of their lives. This is inseparable from religiosity, which additionally influences the willingness to pay Zakat and taxes. For the people paying taxes, the value of religiosity in sincerity and obedience can influence tax payments. Obedience to religious teachings are the driving force for paying taxes as part of one's worship duty. Many of these opinions are based on the arguments of the Koran sura Al-Baqarah [2]: 177 and Al-An'am 6: 141, as the primary form of tax collection law.

The people of Medan City have different characteristics when showing their willingness to pay taxes to individuals and also in their differences in the willingness to pay Zakat to individuals. This is evidently based on a high level of religiosity. Zakat and taxes have something in common, namely the nature of coercion to pay. The lack of knowledge of paying taxes deducted from Zakat is one of the obstacles to instilling such religious values.

### **The Role of Islamic Institutional Organizations in increasing payments in both Zakat and taxes**

The legal aspects of organizational Zakat and economic empowerment programmes are essential in strengthening the role of Zakat organizations in accommodating Zakat mandates in Medan City. The institutional ties of Islamic religious institutions are very closely related to environmental interaction networks that strengthen structured emotional bonds capable of supporting individual attitudes in paying both Zakat and taxes. Social-religious support networks through Islamic organizations and Zakat institutions can likely give individuals in Medan City a greater awareness of paying Zakat and taxes. This condition is inseparable from the contribution of Zakat organizations to serve the community's needs, focusing on economic empowerment. Zakat organizations offer many services in a range of areas such as health, economics, education, agriculture, and disaster management (Muhtada, 2014).

According to the Ministry of Religion, there are 37 National-Scale Amil Zakat Institutions or LAZs, 33 Provincial-Scale LAZs, and 70 Regency/City-Scale LAZs that have legal permits from the Ministry of Religion (Kemenag.go.id, 2023). The number of Zakat Charity Agencies are currently (BAZ) 1 and Amil Zakat Institutions (LAZ) 16 institutions (Diskominfo, 2021). The high acceptance of Zakat in Medan City places Zakat institutions in a distribution role as they allocate funds to those in need. The factor or reason why Muzakki pays Zakat in official institutions is due to an attitude of trust because BAZNAS (The Republic of Indonesia's National Amil Zakat Agency) is transparent (Permata, 2020; Antong & Ramadhan, 2021). The performance of Zakat institutions depends on resources, processes, and stakeholders (Abd Halim Mohd Noor et al., 2015). This means the Zakat organization becomes a vessel for receiving and distributing needed resources.



Baznas RI places Medan City as a role model area for Zakat management. The potential for significant revenues, the management's approach to purification or *muzaki*, and the use of funds are the hallmarks of Medan City. Moreover, the Baznas RI Program is currently being implemented by Pemko Medan ([Pemkomedan.go.id](http://Pemkomedan.go.id), 2022). The synergy between Baznas RI and the Medan City Government is shown by the strengthening of the distribution of Zakat, which aligns with programmes such as the Disaster Response Baznas and Zmart, namely economic empowerment in the form of developing stalls owned by *mustahik* (the rightful person entitled to receive). Moreover, the potential for Zakat in Indonesia reaches IDR 280 trillion annually. Meanwhile, Medan City itself has a Zakat potential of around Rp. Three trillion every year which can improve the welfare of Muslims, especially orphans, the poor, and the data ([Pemkomedan.go.id](http://Pemkomedan.go.id), 2019).

Increased collaboration between the Medan city government, the state, and private Zakat institutions in response to providing a high contribution as a community empowerment sector through the distribution of Zakat. LAZ and BAZ institutions play an essential role in managing and distributing Zakat, spending and alms (ZIS). Zakat has a strategic role in economic development and poverty alleviation. The poverty rate in Medan in 2022 was 8.07 percent, down 3.24 percent compared to 2021. The decline also occurred in the Open Unemployment Rate (TPT), which in 2022 was 8.89 percent or down 1.92. compared to 2021 (Diskominfo, 2023). Zakat Institutions need to ensure their distribution to people in need. Zakat management that is carried out properly must pay attention to the distribution of Zakat to be effective and reach the community needing the support. Ensuring that Zakat is distributed to the right people is thus essential to manage effectively according to Sharia principles.

### **Implementation of Zakat as a tax deduction: Challenges and Obstacles**

In the Qur'an Surah At Taubah Verse 103. The purpose of Zakat has a noble value that can cleanse and purify oneself. The benefits obtained can bring peace of mind. At the same time, taxes can help support the state's life.

Take Zakat from their wealth, in order to cleanse and purify them, and pray for them. Truly your prayer (grow) peace of mind for them. Allah is All-Hearing, All-Knowing. (QS At Tawba Verse 103)

The problem of Zakat as a tax reduction in Indonesia has long been an ongoing issue. Most scholars believe that Zakat and taxes in Islam are obligatory to raise funds needed for the welfare and benefit of the people. The difference is in the legal determination. The legal determination of Zakat is based on religion (*Syar'i*) through the verses of the Quran and the Hadith of the Prophet. In contrast, the tax obligation is based on the determination of *ijtihad* until *amri* (Government). The opinion of most scholars states that both must be fulfilled. One obligation does not invalidate other obligations ([Baznas.jogjakota.go.id](http://Baznas.jogjakota.go.id), 2015).

This means that the success of Zakat and taxes depends on their management, but it must still be distinguished from a legal and implementation point of view. There are fundamental differences that make Zakat and taxes different. First, the legal basis for the nature of obligations. Zakat, is determined based on the Al-Quran and Hadith, which are absolute for all time. Meanwhile concerning taxes, their existence is very dependent on government policies as outlined in the law. Second, regarding the object, percentage, and utilization, Zakat has a *mishap* (minimum level) and a standard percentage based on the provisions set out in various Prophetic Hadiths. At the same time, the tax levy depends on the type, nature, and characteristics. Zakat must be used for interests, while taxes can finance all sectors of state life ([Baznas.jogjakota.go.id](http://Baznas.jogjakota.go.id), 2015).

The primary legal and implementation challenges that face Zakat and taxes in Medan City still need to be worked upon. Even though the Government supports the management of Zakat, it



is manifested in the form of Zakat as a deduction from taxable income (tax-deductible) on a legal basis. Article 3 paragraph 1 letter an of Law Number 36 of 2008 (UU PPh) states that Zakat and religious contributions, which are mandatory, are exempt from tax object with the condition that Zakat and donations are received by mail Zakat bodies or amil Zakat institutions and religious institutions that the Government has approved. Law Number 23 of 2011 regarding Zakat Management states in Article 22 that the Zakat paid by the Zakat giver to the Amil Zakat agency/institution is deducted from the taxable income. The provisions for Zakat are also regulated in the Director General of Taxes Regulation Number PER-11/PJ/2018. This rule regulates Zakat for Muslims and other similar institutions for people who embrace Buddhism, Catholicism, and other Christian denominations in supporting the implementation of Zakat as a Tax Deduction in Medan City. Each tax payment can include proof of Zakat payment when submitting the Annual Income Tax Return (PPh).

There are several obstacles to its application. First, internal factors include unpreparedness in implementation, knowledge, a lack of synergy between institutions, and the need for more information about government-approved Zakat institutions. Second, the external factor is the need for more understanding of the taxpayer on the rules and conditions, and awareness in paying that still needs to be improved upon. It is essential for tax-paying Zakat institutions to ensure that the required information can be informed directly. Zakat institutions must ensure that the public pays to Zakat institutions that are recognized through legal documentary evidence provision. The process of managing Zakat must pay attention to being responsible for planning, implementing, organizing, and supervising the collection and distribution of Zakat according to Sharia criteria and Islamic principles.

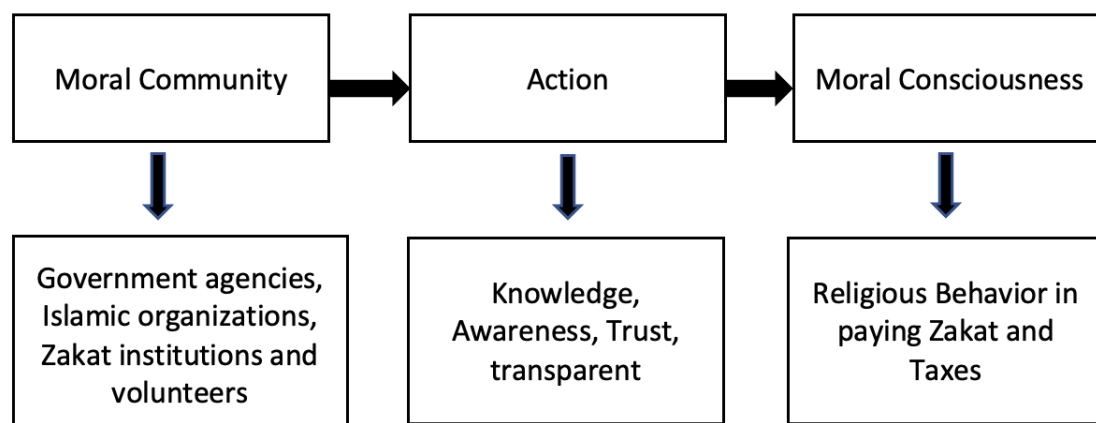
### **Moral Community in Raising Tax Awareness and Zakat**

According to Stark et al. (1980), a moral community refers to a religion facilitating conformist behavior through interactions with others in a broader context, where the attitudes and beliefs of religious groups, regions, and even countries prevail, sustaining and supporting the influence of personal religious beliefs on behavior (Stansfield & Mowen, 2019). A moral community is vital in having a positive effect. Moral communities help provide individual direction in life, opportunities to work in meaningful networks, rewarding interpersonal relationships, and bringing satisfaction from being able to help others (Johnson & Mullins, 1990). Compliance with paying Zakat highly depends on the interaction of beliefs moderated by religiosity, moral reasoning, and peer influence (Bin-Nashwan et al., 2021).

Seasonal people in Medan City comprise the largest population. This has resulted in several Muslim communities in various fields. One of them is the awareness movement to pay Zakat as a form of seasonal religiosity by setting aside assets for the benefit of the people. This role is carried out by Islamic community organizations with particular Zakat institutions to increase public awareness. In addition, government Zakat institutions have the same role by routinely conducting training and outreach to the community. The moral community in Medan City provides awareness of paying Zakat and taxes and provides knowledge on how to apply the deduction of Zakat as a tax. The strategic plan for the city of Medan as a model in Indonesia in managing the Zakat and tax system, requires various strategic roles from the moral community. The role of the moral community includes government institutions appointed to manage Zakat, Islamic community organizations and particular Zakat institutions, and volunteers who deal directly with the community.

The role of the moral community is to forge actions to provide knowledge about Zakat payments that can be used for making valid tax deductions. Creating collective awareness and fostering trust in Zakat institutions regarding management and transparency as a form of social institution accountability is needed. Furthermore, the main goal is to foster moral awareness as a form of religious behavior in paying Zakat and taxes. Moral awareness is represented in the Medan city community only through knowledge and belief. The community

is well aware of Zakat and taxes, but paying compliance becomes problematic. Low incentives and limited information make people pay Zakat in institutions around their homes. As a result, proof of the transaction as a basis for tax deductions is challenging and becomes an obstacle.



**Figure 1.** The role of the moral community in creating moral awareness in Medan City  
Source: Researchers own, 2023.

The problem of awareness, trust in transparency, safety, and accountability in the management of Zakat is one of the obstacles for society to pay Zakat. Meanwhile, in applying Zakat, tax deductions can later be used related to the system and knowledge that is available in society. Efforts to improve people's welfare through Zakat and taxes in Medan City are essential aspects that need urgent attention. The Fatwa of the Indonesian Ulema Council (MUI) in 2011 stipulated in Fatwa Regarding Amil Zakat, that Zakat funds are also used to raise awareness of Zakat.

Activities to build awareness of Zakat, such as advertisements, can be financed from Zakat funds that are part of Amil or Fi Sabilillah within reasonable limits, proportional and in accordance with the rules of Islamic law. (Fatwa of the Indonesian Ulema Council Number: 8 of 2011 concerning Amil Zakat)

Collaboration and strengthening regulations are parts that need to be improved. Meanwhile, for the community, increasing direct relationships as a form of interaction that fosters trust is vital to increase support. With different levels of religiosity and moral reasoning, knowledge is vital. This means that the alienation of the community in listening to, and considering decisions, will be reduced. It is crucial to increase socialization for related parties in fostering the trust of the *muzaki*, which is obtained directly through the mass media, community advertisements, and community volunteers.

## Conclusion

Most religions issue an distinctive and important message to care for the underprivileged and those worthy of material and support to face their conditions of poverty and often huge limitation. In Islam, Zakat is an mandatory giving of alms based on three features. Firstly, it is obligatory and it is a sin to fail to fulfill it. Those that do not adhere to the call will face serious penalties in this life and also in the afterlife. Secondly, zakat must be paid on material belongings only to individual people. Thirdly, it has been precisely detailed and demonstrated to us by a human Messenger, the Prophet Muhammad, peace be upon him. Zakat must be paid when the threshold (*nisab*) levels of each wealth-type possessed are reached. It must be paid at the time of year (*hawl*) or point of advantage (*mahsul*) which is stated for payment on an individual class of wealth. Also the amount of Zakat due is based on diverse categories of wealth which are reckoned as a ratio, or as a rate, based on one's wealth.





The doctrine of religious values dramatically influences the people of Medan in paying Zakat. Different characteristics show the attitude, willingness, and compliance to pay taxes on individuals and differences in the willingness to pay Zakat on individuals. In implementing the policy of paying Zakat to cut taxes, many people still need to learn what to do. The emergence of trust in paying Zakat in institutions close to their environment compared to institutions recognized by the government is inseparable from the high value of religiosity, which is more concerned with distributing Zakat effectively. This makes proof of payment administration unusable for withholding taxes. This condition makes the role of Islamic institutional organizations important in increasing socialization and understanding in raising awareness for the people of Medan City to pay Zakat to reduce taxes for taxpayers.

Meanwhile, the emerging moral community tends to emphasize knowledge, awareness, trust, and transparency that can increase the religious value of society in paying Zakat. Compliance is an aspect that is considered essential to be improved compared to providing knowledge about Zakat policies that can reduce taxes. This means that this policy still needs to be added to the priority to provide convenience to the public in reducing the tax burden. Future research is vital in order to ascertain the level of compliance in paying taxes for religious taxpayers by paying Zakat, with those who are not religious in paying their taxes.

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